



HONG KONG MONETARY AUTHORITY

香港金融管理局

14 June 2012

The Chief Executive
All Authorized Institutions

Dear Sir/Madam,

Renminbi (RMB) Liquidity Facility

The Hong Kong Monetary Authority (HKMA) announced today (14 June 2012) the introduction of a facility for providing RMB liquidity to AIs participating in RMB business (Participating AIs) in Hong Kong. The facility will make use of the currency swap arrangement between the HKMA and the People's Bank of China.

The offshore RMB market in Hong Kong has been growing healthily in the past two years both in terms of liquidity and new avenues of lending and investment. The introduction of the facility is to support the continuous deepening of the RMB capital market in Hong Kong and to reinforce Hong Kong's role as the global hub for offshore RMB business. The facility would serve to address short-term RMB liquidity tightness which may arise from time to time, for example, due to capital market activities or sudden need for RMB liquidity by Participating AIs' overseas bank customers. It would help reduce potential market disruptions and hence enhance market confidence at all times and support the long term development of the offshore RMB market.

With effect from 15 June 2012, the HKMA will, in response to requests from individual Participating AIs, provide RMB term funds to the Participating AIs against eligible collaterals acceptable to the HKMA. The terms and conditions for this facility are as follows:

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|-------------------------------------|---|
| (i) Tenor | One week |
| (ii) Interest rate | By reference to prevailing market interest rates |
| (iii) Eligible collateral | <ul style="list-style-type: none">• Exchange Fund Bills and Notes• HKSAR Government bonds• RMB denominated bonds issued in Hong Kong by the Ministry of Finance of the People's Republic of China |
| (iv) Haircut on eligible collateral | <ul style="list-style-type: none">• 5% for securities with remaining maturity at 1 year or below• 10% for securities with remaining maturity at 5 years or below but over 1 year• 20% for securities with remaining maturity over 5 years |
| (v) Banks eligible | RMB Business Participating AIs |
| (vi) Contact details | Participating AIs interested to borrow RMB funds should contact the dealing room of the HKMA at 2878-8104 or Reuters dealing code EFHK before 10am on each business day |
| (vii) Settlement | RMB funds will be credited to the Participating AI's RMB RTGS account held with the Clearing Bank on T+2 basis subject to the receipt of the securities by the HKMA |

Participating AIs are welcomed to use the RMB liquidity facility to manage their short-term liquidity needs and they may roll over the borrowings under this facility if needed. Nevertheless, this facility should not be regarded as a steady source of funding for their business. We will keep the terms and conditions of the facility under constant review, and where appropriate, make refinements in light of the experience in operating the facility.

Yours faithfully,

Peter Pang
Deputy Chief Executive